

Russia-Ukraine War and its Implications on Central Bank

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Deputy Governor

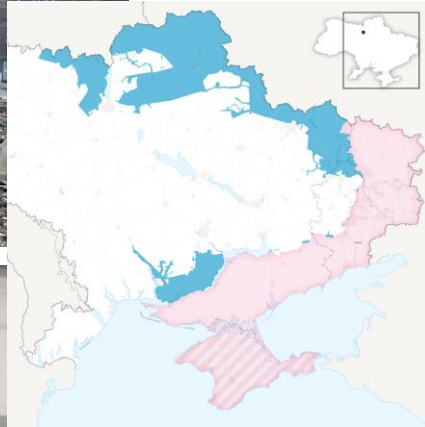
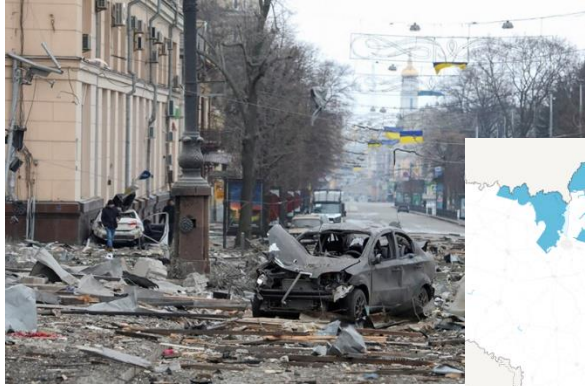
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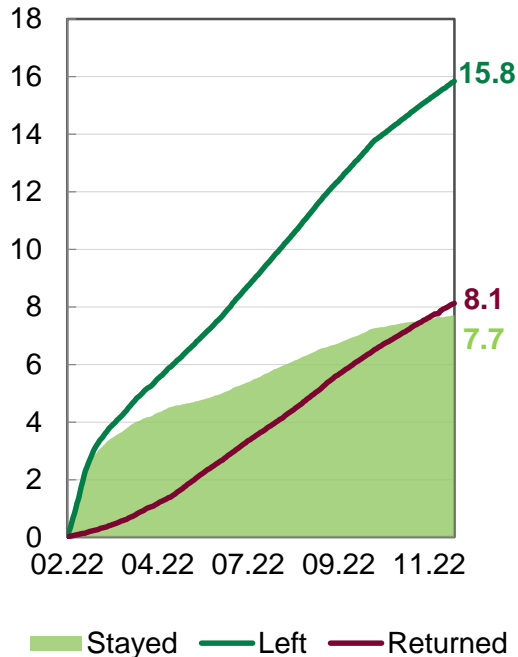


Modern banking system in time of full-scale war



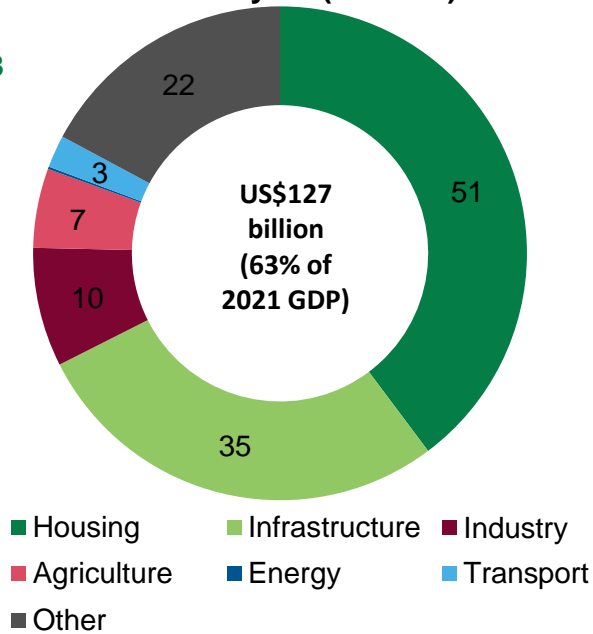
The human and economic losses caused by the war are enormous

Total Ukrainian refugees flow



Source: UNHCR.

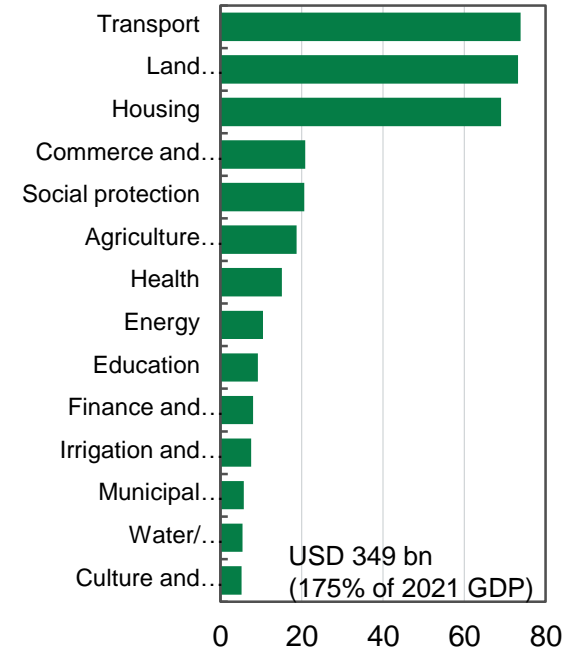
Damage to physical infrastructure since February 24 (USD bn)



As of October, 21 2022.

Source: Kyiv School of Economics.

Estimated recovery and reconstruction needs (USD bn)

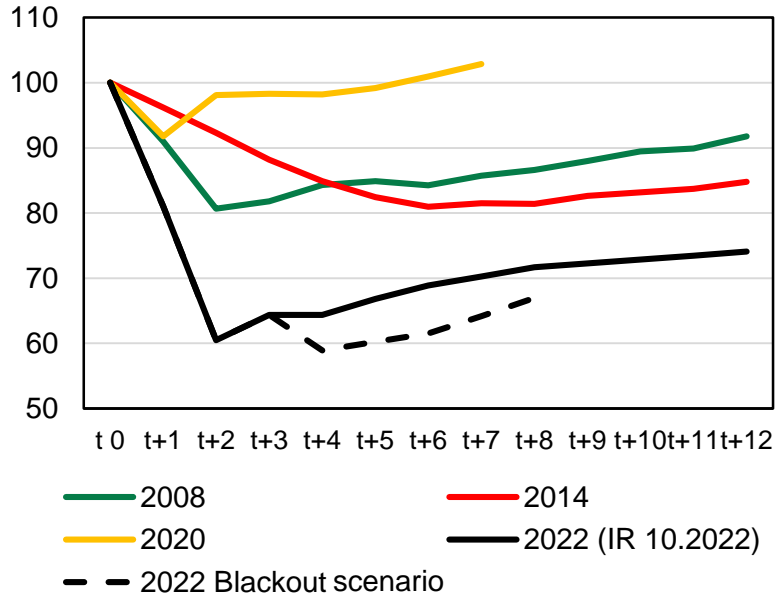


As of June 1, 2022.

Source: World Bank Rapid Damage and Need Assessment.

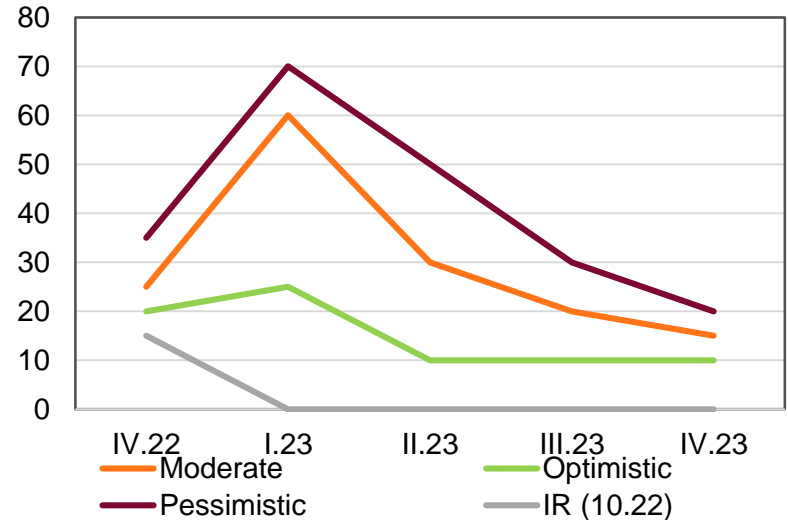
The recovery will continue gradually but subject to great uncertainty

**Real GDP during various crises, index
(quarter before the crisis = 100%)**



* Since t+2 2022 for 2022 – NBU forecast as of Inflation Report, Oct 2022. t0= 4Q2008; 4Q2013; 1Q2020; 4Q2021.
Source: SSSU, NBU staff estimates.

**Assumptions about the deficit of electricity
capacities in the power system, %**

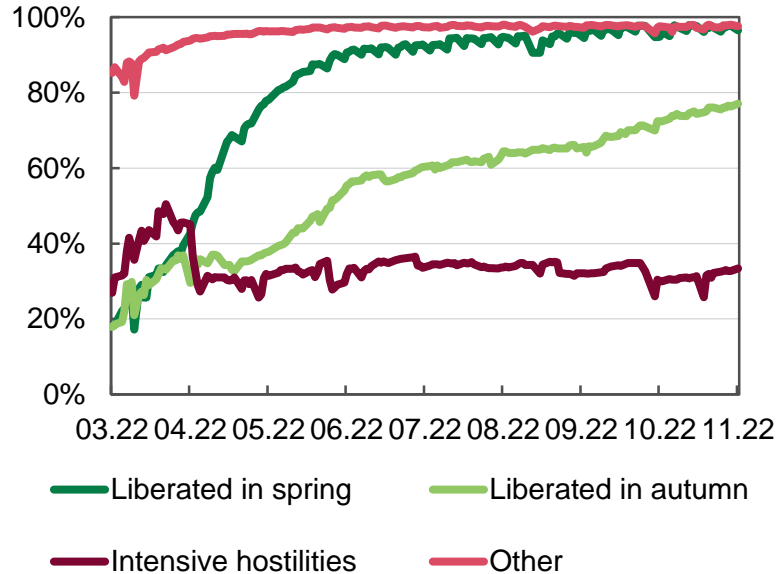


* Optimistic - repairs allow maintaining the status quo of electricity deficit at the level of early December; moderate - continuation of attacks and increased effect on the power system; pessimistic - significant and long-term damage to the energy system

Source: Ukenergo, NBU staff estimates.

Operational challenges at the beginning of the war

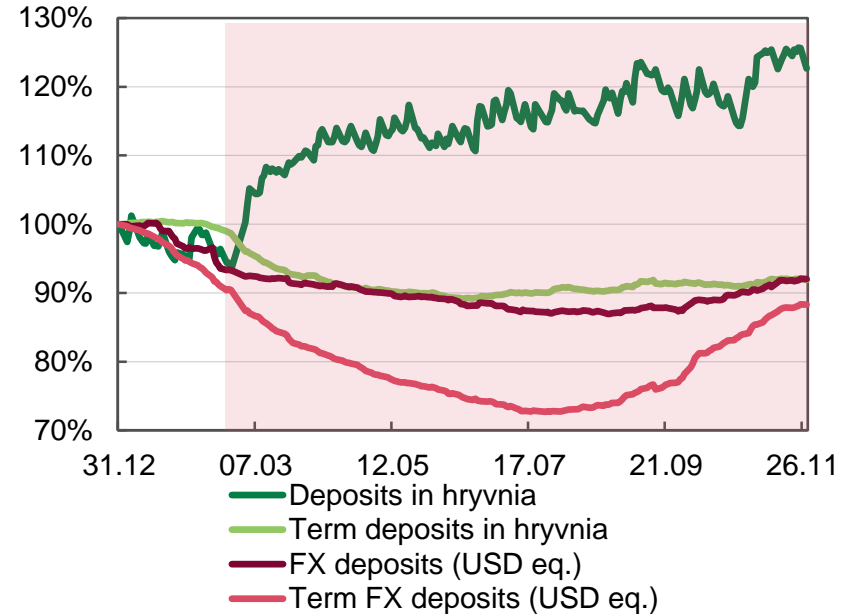
Share of operating branches of systemically important banks



Regions are classified into groups. “Liberated in spring” comprise Kyiv, Sumy, Chernihiv oblasts, and city of Kyiv. “Liberated in autumn” comprise Mykolaiv and Kharkiv oblasts. “Intensive hostilities” comprise Donetsk, Luhansk, Zaporizhzhia, and Khesron oblasts.

Source: survey of systemically important banks.

Deposits, 31 Dec 2021=100%



Source: NBU. daily data. Retail deposits include certificates of deposit. at banks that were solvent as of 1 September 2022

Operational challenges during blackouts

The NBU and the banks are constantly keeping in touch and working to ensure the banking system's uninterrupted operation during blackouts



- **Power Banking**, a nationwide network of about 1,000 branches that will always operate when power is down
- **Smooth operation of banks' contact centers** to inform customers about the availability, location, and schedules of vital bank branches throughout the country
- Supplying the banks with **as much cash as they need**
- **“National ATM roaming”**, a single extended limit on ATM withdrawals for cards issued by Ukrainian banks
- **Call to place ATMs and payment terminals in what are known as stationary Invincibility Points**
- **Individuals who need cash can get it not only from an ATM, but also at stores, pharmacies, and gas stations** while making card-based purchases

Changes in monetary policy setup to preserve macroeconomic stability in wartime

Maintaining price and financial stability

In peacetime

The **key policy rate** is the main monetary policy instrument

Forward-looking nature of monetary policy decisions

Monetary policy operational design is for **the effectiveness of key policy rate**

Floating exchange rate

FX interventions in order to smooth out excessive exchange rate fluctuations

Focus on **canceling FX restrictions and currency liberalization**

Prohibition on monetary financing of the state budget

In wartime

Postponing the key policy rate decision (March-May). Since June, rate plays a supportive role

Response to the rapidly changing environment

Market-maker's of last resort operational design: ensuring a proper level of liquidity and banks' flexibility in its management

Fixed exchange rate – nominal anchor for expectations and anti-inflationary tool

FX interventions as **the main monetary operation**

Restrictions on currency transactions and capital flows to maintain fixed ER

Monetary financing of the state budget

Banking system relaxations

Capital Protection

- Sanctions for violating certain capital, liquidity, and FX requirements are not applied
- Capital distribution, including dividend payouts, are forbidden
- The counting of days past due for prudential provisions temporarily suspended (eased pressure on regulatory capital) (***canceled in July***)

Postponing introduction of new requirements

- The introduction of capital buffers postponed
- The NSFR kept at 90%

Easing pressure on operating activities

- Banks' AQR and stress tests for 2022 are canceled
- Submission of financial statements and some statistical reports postponed
- Revaluation and verification of collateral postponed
- Simplified verification temporarily expanded; onsite AML inspections suspended

Opening up opportunities

- The use of cloud data services allowed
- A number of customer identification requirements eased
- The limit amount for simplified remote verification increased
- Banks temporarily allowed not to recognize loans that have been restructured because of the war as in default

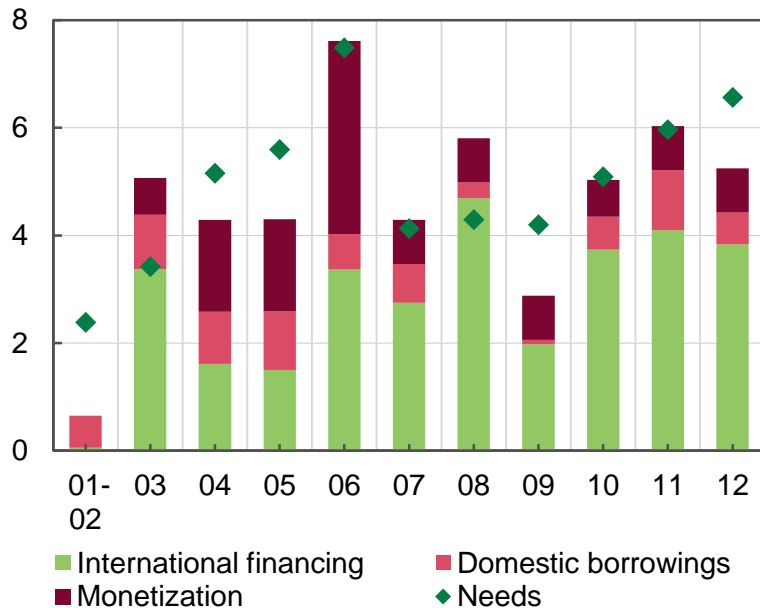
Other

- Transactions with related parties are forbidden

The NBU promptly adjusts specifics of banking regulation under martial law, taking into account current situation in the financial sector.

NBU supports budget needs with g-bonds purchases. However, international support is accelerating its pace

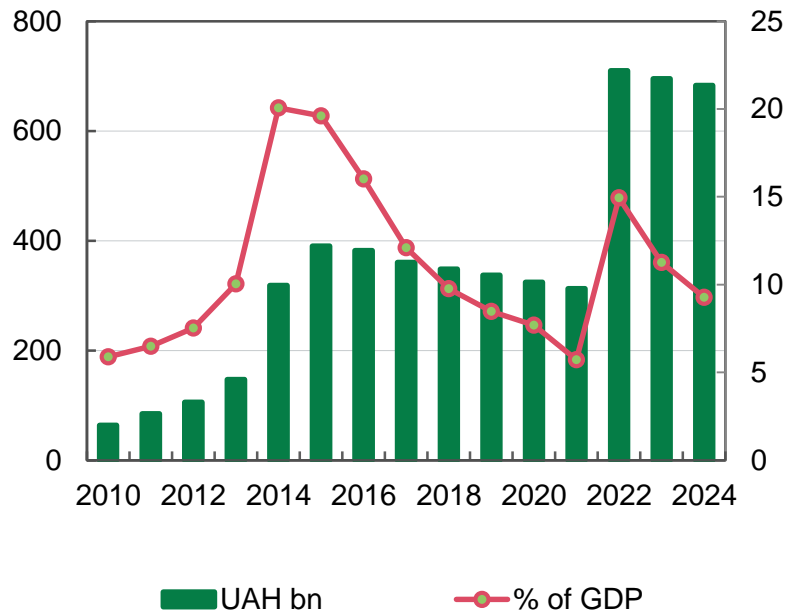
Fiscal needs*, monetization and expected external funding in 2022, USD bn



* General fund of the state budget, excluding grants. November – preliminary data.

Source: STSU, MoF, NBU staff calculations.

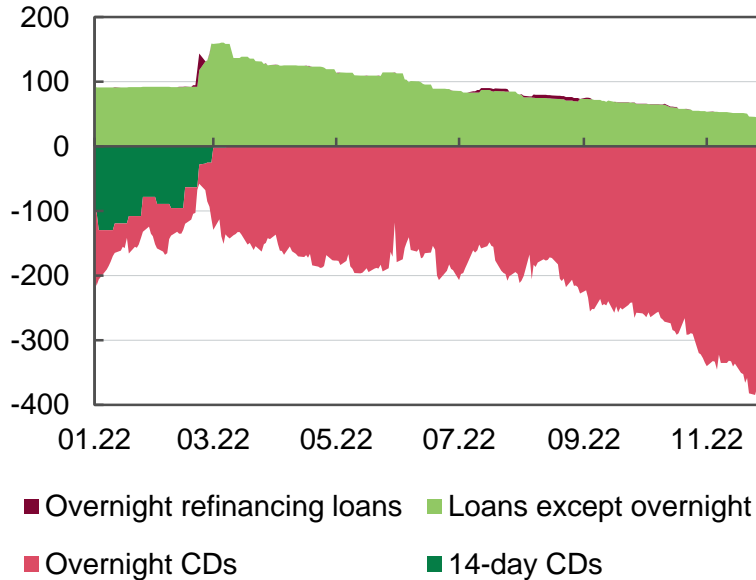
G-bonds in the NBU's portfolio



Source: NBU, forecast as of October 2022 Inflation Report.

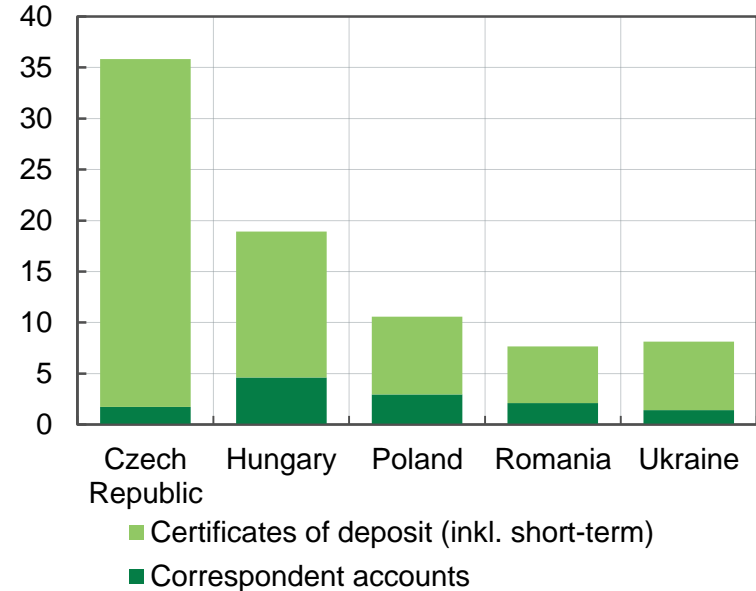
Banking sector liquidity

Balance of refinancing loans* and certificates of deposit, bl UAH



* Excluding insolvent banks and banks undergoing liquidation.
Source: NBU.

Banking system liquidity*, % of GDP

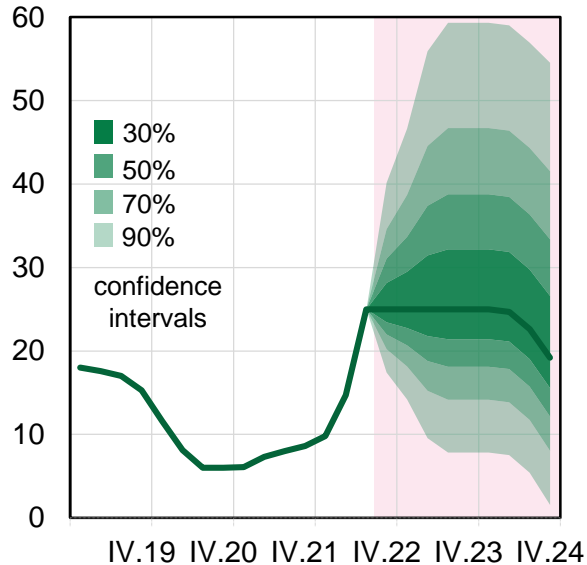


* As of October 2022.

Source: central banks official web-pages, IMF, NBU's estimates

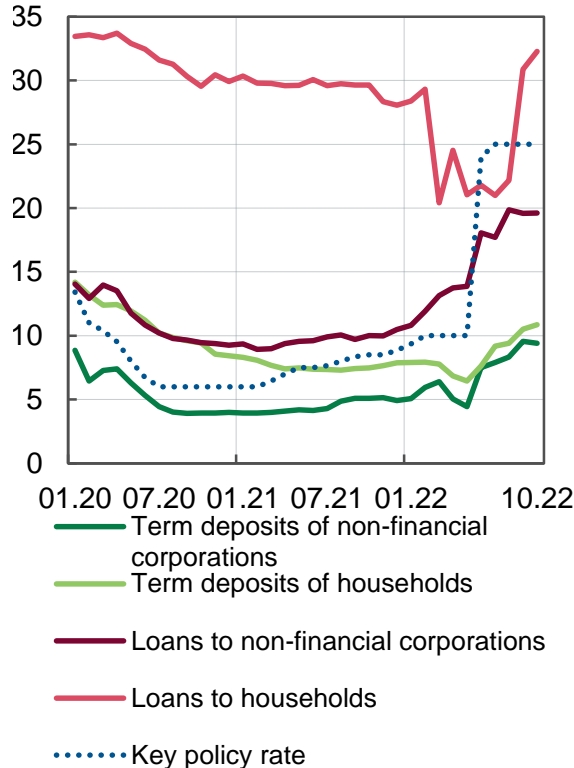
Relatively tight monetary conditions aim to support attractiveness of UAH assets

Key rate, %*



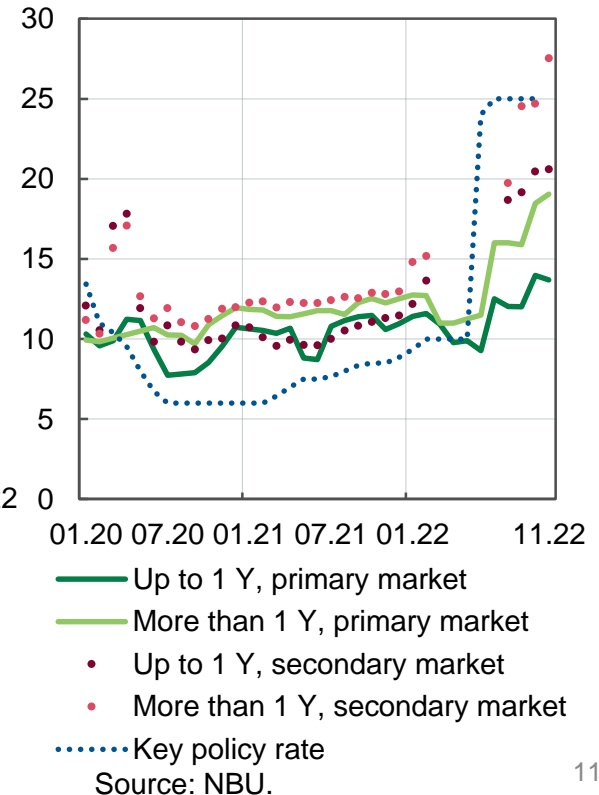
As of Inflation Report, October 2022.
Source: SSSU, NBU staff estimates.

Weighted average interest rates on new hryvnia loans and deposits, %



Source: NBU.

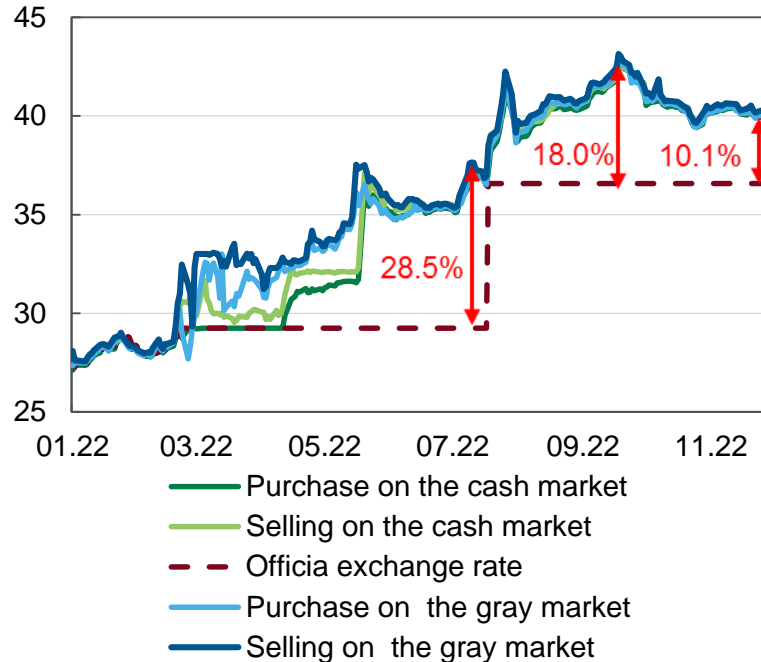
The yields on hryvnia government bonds, % pa



Source: NBU.

NBU measures allowed to stabilize FX market, but conditions for floating exchange rate are not fulfilled yet

Exchange rate UAH/USD



Source: NBU, open sources.

- The NBU on 21 July 2022 allowed the banks selling currency to individuals online conditional for depositing it at least for three months, without the right for early termination within the monthly limit of **UAH 50000** (in equivalent)

has increased to **UAH 100000** (in equivalent) on 1 October 2022

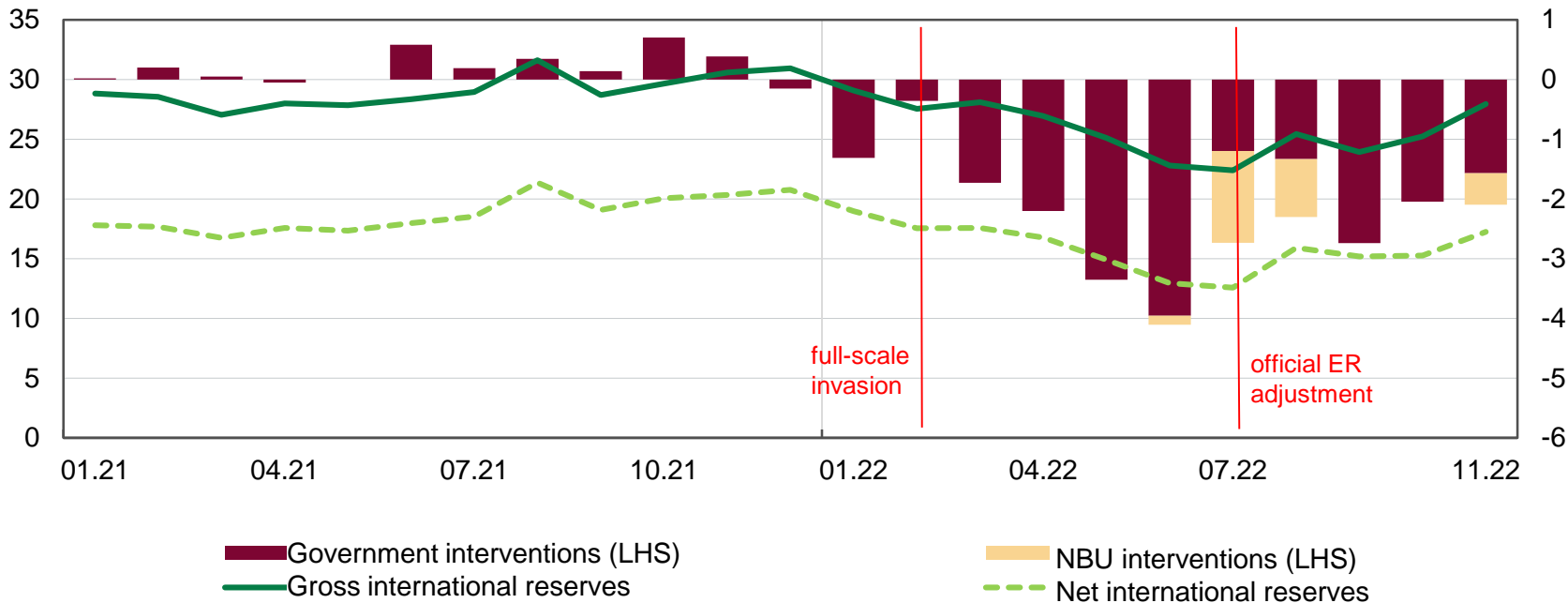
- The NBU on 21 October 2022 NBU introduced a new instrument that enable households to hedge their hryvnia savings against changes of exchange rate. Individuals is allowed to buy U.S. dollars at the NBU's official exchange rate, make a term FX deposit with maturity of at least six month, and withdraw the deposit by selling the dollars back to the bank for hryvnias at the official rate on the day withdrawal after it matures. There is no limits on the number or size of such deposits per client

NBU's FX restrictions help to stabilize the market and prevent the unproductive capital outflow

	Feb-24	March	Apr	May	Jun	Jul	Aug	Sep	Oct
Individuals	FX cash withdrawals from FX accounts	✘ Full ban	UAH 30K / day → UAH 100K / day						
	FX cash withdrawals abroad from UAH accounts	✔ No limit	cap → UAH 100K / month		→ UAH 50K / month		→ UAH 12.5K / week		
	FX payments from UAH card accounts	✔ No limit					cap → UAH 100K / month		
	P2P card transfers	✔ No limit	cap → UAH 100K / month				→ UAH 30K / month		✘ Full ban
	FX cash purchases from banks	✘ Full ban		cap → FX cash purchased by banks ER – official + 10%	ER - no restrictions		+ 50% of noncash FX purchased from individuals	+ 100% of noncash FX purchased from individuals	cap → UAH 100K+3-months depositing → deposit to hedge ER risk for HH / unlimited amount
	Online FX purchases	✘ Full ban					cap → UAH 50K / month + depositing it for 3 months		
	ER for card payments	cap → official +1%		→ official +10%	→ no restrictions				
	SWIFT payments abroad	✘ Full ban							
Corporates	Imports payments	list of critical imports:	goods ~65% services 0%	← allowed →	~90% ~30%		→ 100% (no restrictions) → ~50%		
	Deadline for settlement of export-import transactions	365 days		→ 90 days		→ 120 days	→ 180 days		
	Repayments of debts abroad	✘ Full ban						transferring foreign currency to pay % is allowed	
Banks	Transfer of FX funds to accounts of foreign units (there are certain requirements)	✘ Full ban						allowed for available FX currency; to sustain the operation of units; ¼ of the amount transferred in 2021	
	FX open position				15% → 5%				
	Repayments of loans to nonresidents			early repayments are prohibited					

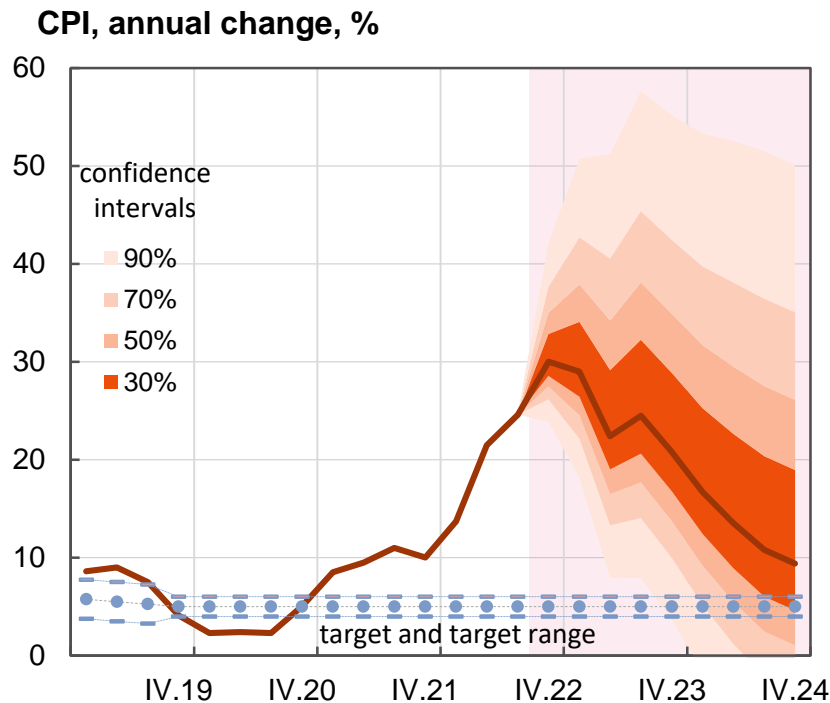
International reserves position improved recently reflecting international support acceleration, ER repeg and other measures

FX reserves and NBU net FX purchases, USD bn

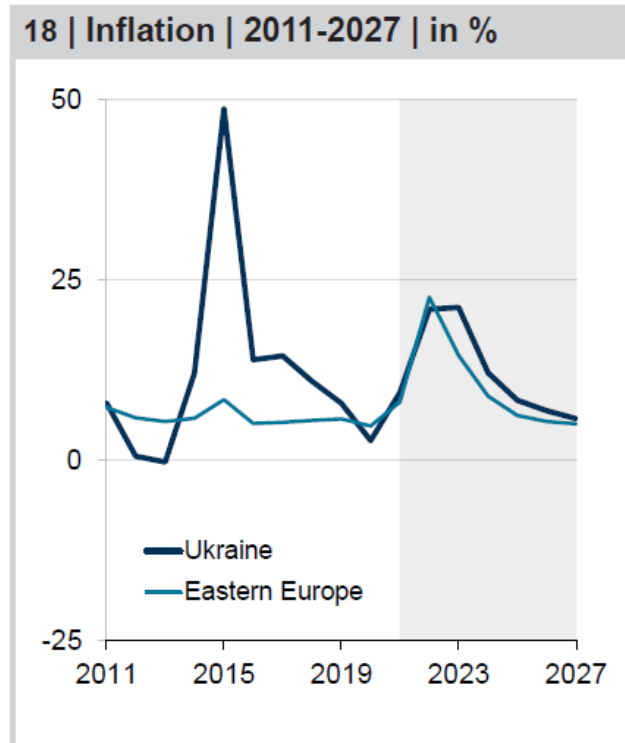


Source: NBU.

War shocks and needed adjustments afterwards will keep inflation high. However, it will gradually decrease to 5% target

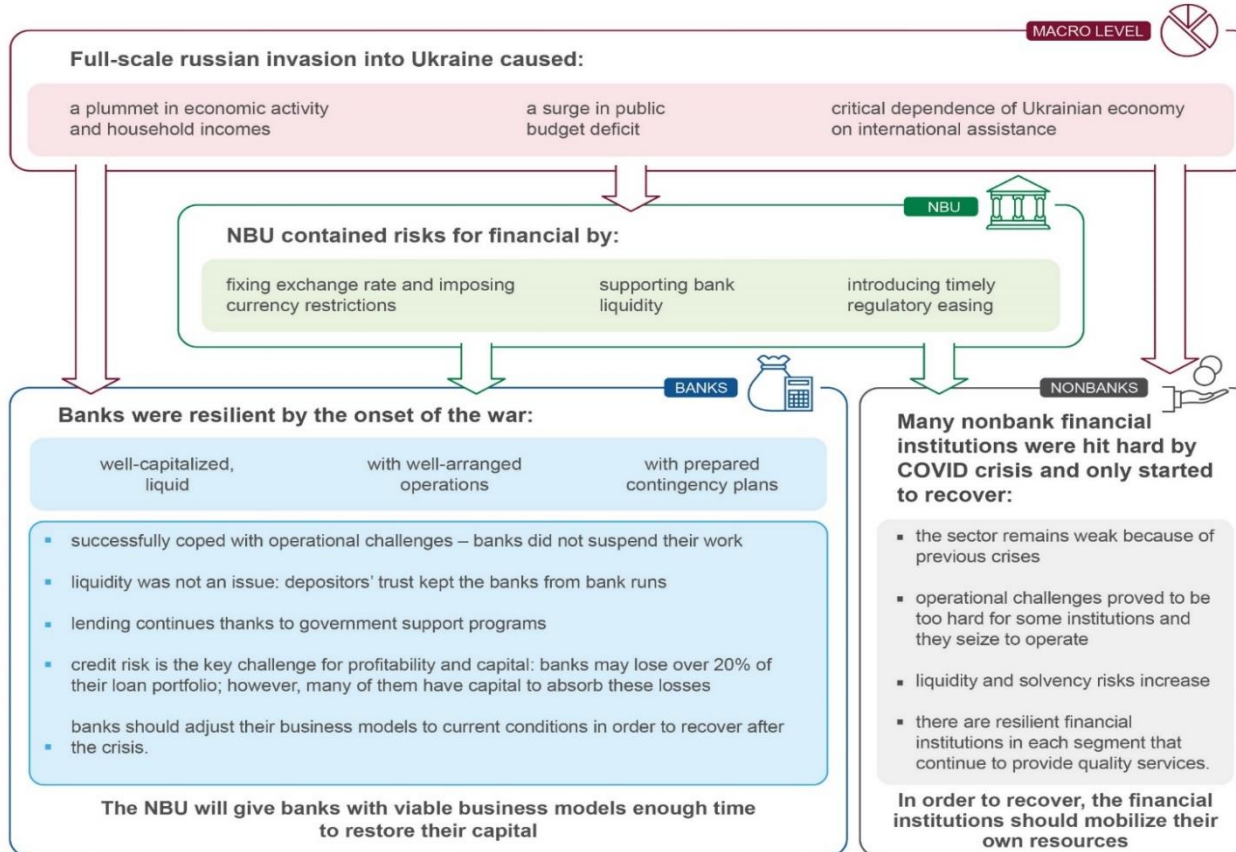


As of Inflation Report, October 2022.
Source: SSSU, NBU staff estimates.



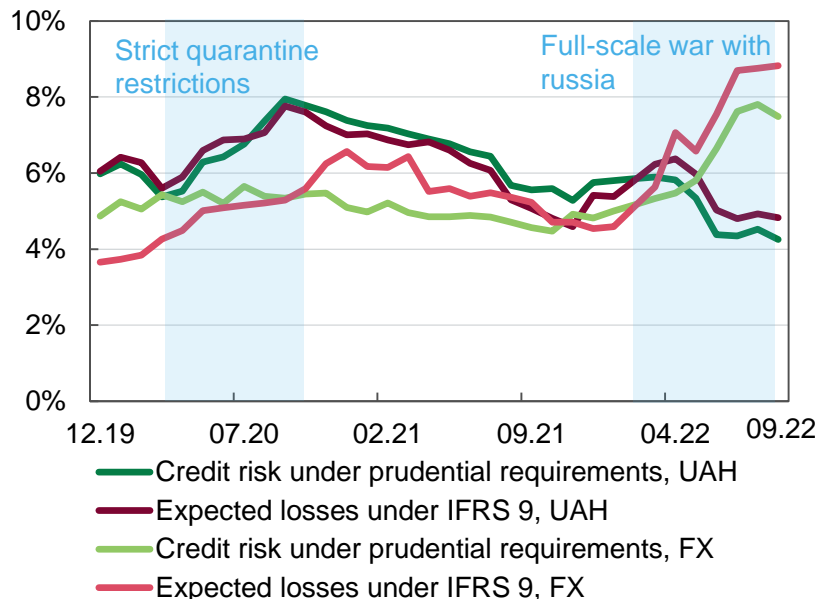
Source: Focus Economics (December 2022)

War effects to financial sector



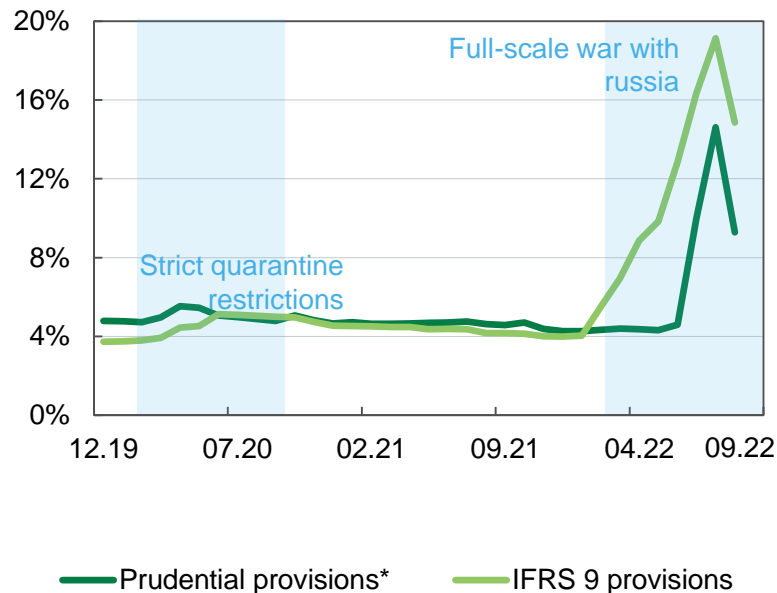
Losses from credit risk will exceed banks' expectations

Provision coverage of corporates' performing loans, %



*Credit risk in line with Resolution No. 351.
 Issued by banks that were solvent as of 1 October 2022.
 Source: NBU.

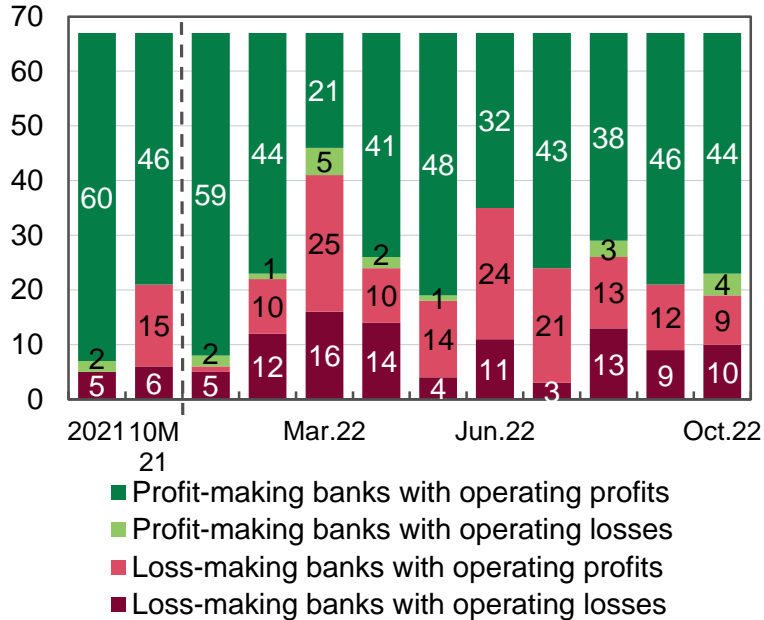
Provisions for performing hryvnia retail loan portfolio, %



Issued by banks that were solvent as of 1 October 2022.
 Source: NBU.

Credit risk drags on sector's profitability

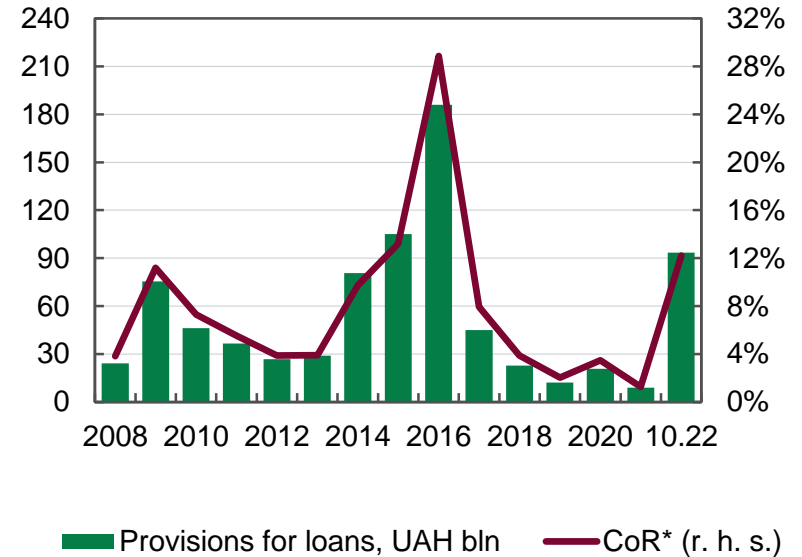
Loss or profit by number of banks *



* For banks solvent as of 1 October 2022

Source: NBU

Cost of Risk

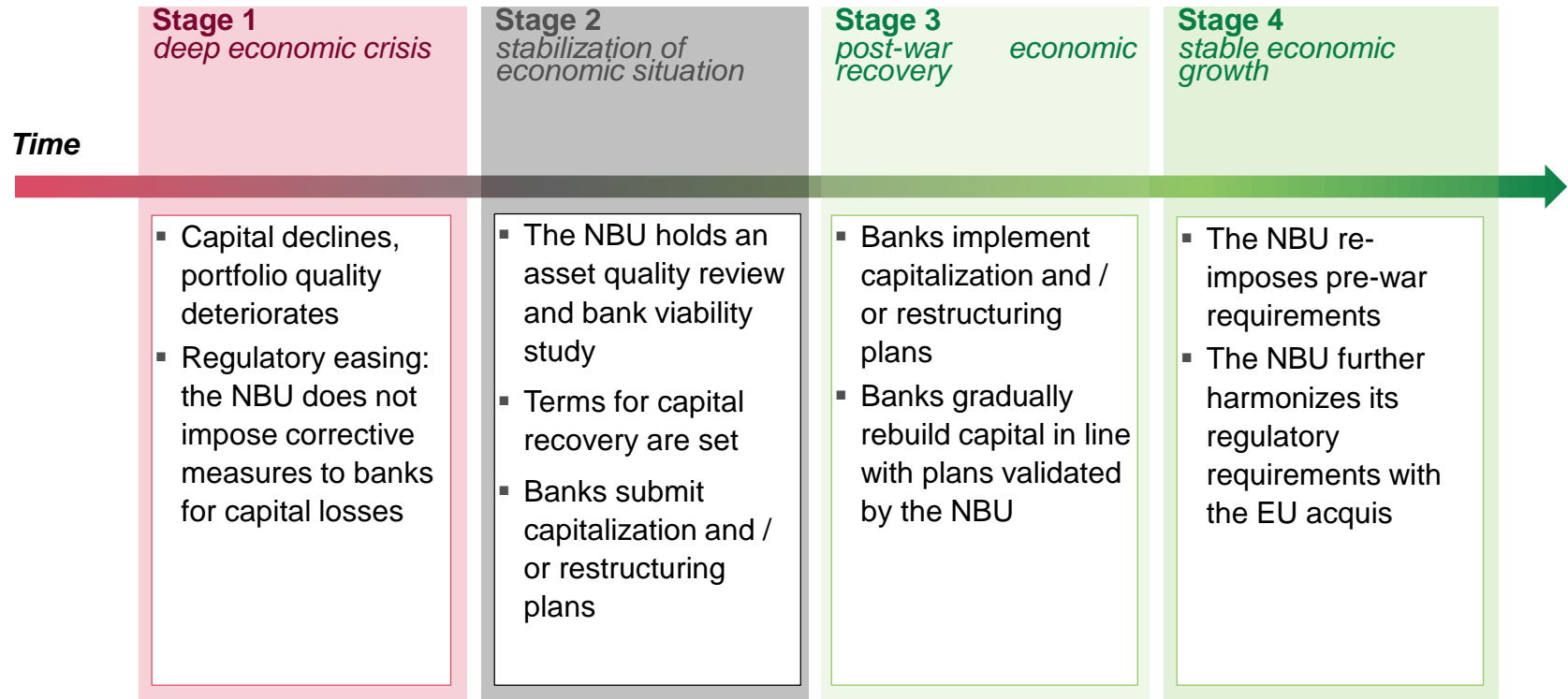


2022 data are not annualized

* Ratio of provisions for loans in respective period to net loan portfolio.

Source: NBU.

NBU will set a schedule for banks' capital recovery



Aligning Ukraine's banking regulatory and supervisory framework with EU standards

- NBU grounds regulatory approach on EU standards and Basel recommendations
- In the nearest future the NBU will re-impose several requirements:
 - NSFR requirement at 100% (April 2023)
 - Deduction of 75% of Non-core assets value from capital (from end-2022)
- The NBU continues to work on implementation of requirements aligned with those of the EU, in particular:
 - Capital structure in line with the CRD/CRR
 - ILAAP
 - Capital requirements to cover market risk
 - Enhanced requirements on disclosure and reporting
 - Leverage ratio requirements
- The timeline for introduction of these new requirements will depend on paces of recovery of the economy and financial sector

Conclusions

- Despite full-scale invasion and terrorist attacks of russia, the Ukrainian financial system and the NBU are well functioning and supporting war efforts
- Meeting operational challenges is vital precondition for fulfilment of core functions of the central bank
- NBU policy priorities remain the same, namely ensuring price and financial stability. That's important basis for surviving in wartime, and then recovering rapidly in peacetime
- To achieve its goals, the NBU has in its toolkit combination of proven and effective tools (ER-peg and capital controls) as well as unorthodox ones (e.g. hedging instruments for households)
- NBU keeps aligning the banking system regulatory and supervisory framework with EU standards as well as making all efforts to join SEPA
- **Keep calm and stay with Ukraine!**



National Bank of Ukraine

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